

# **CITY OF BOSTON**

## **DRAFT APPLICATION**

### **CDBG Neighborhood Stabilization Program-2**



**City of Boston**  
**Thomas M. Menino, Mayor**

**Department of Neighborhood Development**  
**Evelyn Friedman, Chief and Director**

**DEPARTMENT OF NEIGHBORHOOD DEVELOPMENT**  
**26 Court Street, Boston, MA 02108**

## **Introduction and Request for Public Comments**

The City of Boston is planning to apply to the U.S. Department of Housing and Urban Development for \$20 million in Neighborhood Stabilization Grant Funds (NSP-2) under the American Recovery and Reinvestment Act (ARRA) of 2009. These funds will supplement the \$4.2 million in NSP-1 formula grant funds the City of Boston received under the Housing and Economic Recovery Act (HERA) of 2008. The ARRA NSP-2 grant program is a national competition. Applications must be submitted by July 17, 2009.

The City of Boston is hereby inviting comments on its draft Neighborhood Stabilization Program (NSP-2) competitive application. This draft NSP-2 application provides important details regarding the City of Boston's proposed uses of the NSP-2 funds, including the target geography for the program, the proposed budget and proposed program activities. This is not a draft of the complete application. Due to the competitive nature of this competition, those elements of the application that are primarily concerned with competitive ranking criteria, applicant capacity or administrative requirements such as certifications and grantee forms are not included. The complete application will be posted after it is submitted and the competition has closed.

The draft NSP-2 application has been posted on the City of Boston's website for a 10-day public comment period beginning on Monday, June 29, 2009, and ending at 5:00 p.m. on Thursday, July 9, 2009.

The Neighborhood Stabilization Program (NSP-2) draft application is available at the following location:

[http://www.cityofboston.gov/dnd/Consolidated\\_Plan.asp](http://www.cityofboston.gov/dnd/Consolidated_Plan.asp)

Comments on the draft NSP-2 application may be submitted by mail at the following address:

**Draft NSP-2 Application  
Policy Development & Research Division  
Department of Neighborhood Development  
26 Court St., 8th floor, Boston, MA 02108**

Comments may also be submitted by e-mail to [actionplan.dnd@cityofboston.gov](mailto:actionplan.dnd@cityofboston.gov)

In preparing the final NSP-2 application for Submission to HUD, the Department of Neighborhood Development will take into consideration all comments received by mail or e-mail by 5:00 p.m. on Thursday, July 9, 2009.

For more information, please contact Robert Gehret, Deputy Director, Policy Development & Research Division/DND at (617) 635-0242 or by e-mail at [bgehret.dnd@cityofboston.gov](mailto:bgehret.dnd@cityofboston.gov).

## Target geography

In order to be eligible for NSP-2 funding, applicants must identify a “high-risk” target geography that meets the NSP-2 requirements. The target geography must have an average risk score of 18 or higher based on two foreclosure-related risk scores HUD has created. The “foreclosure” risk score ranks census tracts by two measures: (1) the percent of foreclosure problems and (2) the number of foreclosure problems. Each tract receives the higher rank (from 1 to 20) from those two rankings. The “vacancy” risk score is based on an algorithm that combines 90-day vacancy rates with foreclosure problem rates and then ranks census tracts from 1 to 20 on this estimate. The City of Boston is proposing essentially the same high-foreclosure target geography for its NSP-2 application as was proposed for its NSP-1 program. The target area consists of 42 high-foreclosure census tracts in the neighborhoods of East Boston, Dorchester, Roxbury, Mattapan and Hyde Park. The map on the next page shows the census tracts included in the NSP-2 target area, each tract’s qualifying score on the HUD NSP-2 indices and the number of lender-owned foreclosed properties (REOs) located in the tract. Only one NSP-1 census tract (tract 813) had to be excluded from the NSP-2 target area in order for the entire target area to meet the minimum qualifying NSP-2 average index score of 18. Although some other tracts had lower index scores, this tract was dropped because it had a low number of REOs and because it was not located within the foreclosure acquisition target areas of any of the Community Development Corporations working with the City’s NSP-target area.

**Concentration of REOs:** In addition to having a high score on HUD’s foreclosure risk indices, this target area has a concentration of lender-owned foreclosed properties or REOs (real estate owned) properties. There are currently 928 REO properties in Boston, of which 650, or 70%, are located in the NSP-2 target area.

**FIT Areas:** The area also includes all three of Boston’s previously designated Foreclosure Intervention Team (FIT) target areas, Hendry Street, Langdon Street and Dacia Street.

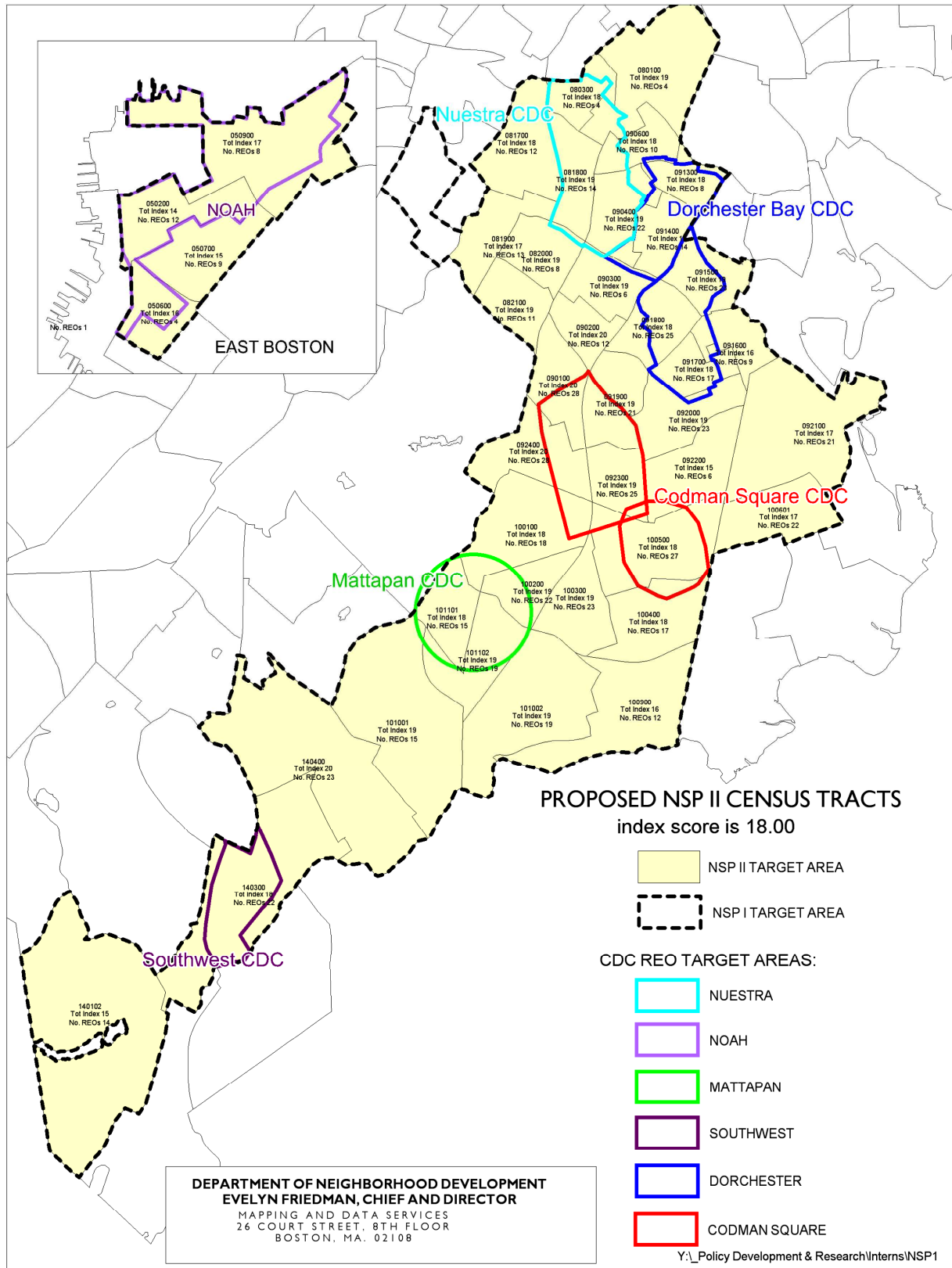
**Concentration of High Cost Loans:** Based on Home Mortgage Disclosure Act (MHMDA) data provided by HUD, the NSP target area accounted for 18,160 (30%) of the 61,110 home purchase and refinance mortgages made in Boston from 2004-2006. However, this area accounted for 6,712 (58%) of the 11,669 mortgages identified as “high cost loans” during this period. Fully 37% of all purchase and refinance mortgages in the target area were high cost loans, compared with just 19% citywide.

**Declining Property Values:** The over-valuation of housing in the peak of the market has had a major impact on the local real estate market, especially in the target area. The median sales price<sup>1</sup> for small residential properties (condominiums, 1-family, 2-family and 3-family properties) decreased 37% from 2005 to 2008 in the NSP II target area compared to a decrease of 10% citywide.

	Median Price 2005	Median Price 2008	Percentage Change
<b>NSP-2 Target Area</b>	\$380,000	\$240,000	-37%
<b>Citywide</b>	\$390,000	\$352,000	-10%

<sup>1</sup> Median sales price is based on quality data from The Warren Group. The data is based on recorded and registered transactions at the Suffolk Registry of Deeds.

## Map of Target Proposed NSP-2 Target Area



# HUD NSP-2 Foreclosure and Vacancy Index Scores for Boston's NSP-1 Target Area Census Tracts

Census Tract	Neighborhood	FIT Area	foreclose	vacancy	MaxScore	NSP-2
25025050200	East Boston		14	13	14	y
25025050600	East Boston		16	16	16	y
25025050700	East Boston		15	15	15	y
25025050900	East Boston		17	15	17	y
25025080100	Roxbury	Langdon	19	19	19	y
25025080300	Roxbury		18	17	18	y
25025081300	Roxbury		16	16	16	n
25025081700	Roxbury		18	16	18	y
25025081800	Roxbury	Dacia	19	19	19	y
25025081900	Roxbury		17	16	17	y
25025082000	Roxbury		17	19	19	y
25025082100	Roxbury		19	16	19	y
25025090100	Roxbury		20	18	20	y
25025090200	Roxbury		20	18	20	y
25025090300	Roxbury		19	19	19	y
25025090400	Roxbury	Dacia	19	19	19	y
25025090600	Roxbury	Dacia	18	18	18	y
25025091300	North Dorchester		18	17	18	y
25025091400	North Dorchester		18	15	18	y
25025091500	North Dorchester	Hendry	19	17	19	y
25025091600	South Dorchester		15	16	16	y
25025091700	South Dorchester		18	18	18	y
25025091800	South Dorchester		17	18	18	y
25025091900	South Dorchester		19	18	19	y
25025092000	South Dorchester		18	19	19	y
25025092100	South Dorchester		17	15	17	y
25025092200	South Dorchester		15	15	15	y
25025092300	South Dorchester		19	18	19	y
25025092400	Roxbury		20	17	20	y
25025100100	Mattapan		18	15	18	y
25025100200	Mattapan		19	19	19	y
25025100300	Mattapan		19	18	19	y
25025100400	South Dorchester		17	18	18	Y
25025100500	South Dorchester		18	16	18	y
25025100601	South Dorchester		17	9	17	y
25025100900	Mattapan		16	12	16	y
25025101001	Mattapan		19	13	19	y
25025101002	Mattapan		19	14	19	y
25025101101	Mattapan		18	14	18	y
25025101102	Mattapan		19	16	19	y
25025140102	Hyde Park		15	11	15	y
25025140300	Hyde Park		18	12	18	y
25025140400	Hyde Park		20	14	20	y
Total Score (42 tracts)					756	
Avg. score (42 tracts)					18.0	

## **Proposed Activities**

Boston's neighborhood stabilization strategy for its NSP-I and NSP-2 target area has three main components: 1) Acquisition and rehabilitation of REOs by responsible owners who will reinvest, not speculate, 2) Targeted neighborhood stabilization investment, and 3) Reinvestment in non- REO properties in high foreclosure areas.

**Acquisition of and Rehabilitation of REOs.** This component is focused on getting REO properties into the hands of responsible owners who will renovate these properties and operate them in a responsible manner. The City's direct experience in acquiring REO properties has shown us that there is a very active speculative industry growing in which investors are seeking to acquire REO properties to hold until the market improves. In areas of high-foreclosure concentrations, excessive speculative purchases will greatly prolong the cycle of disinvestment for years to come as speculators hold properties and make minimum investments, waiting for big profits when the market rebounds. It is the City's goal to prevent this long-term destabilization of neighborhood housing markets by aggressively competing in the REO market to ensure that a significant share of resold REOs go to purchasers who will invest in and stabilize their communities. This strategy will be implemented in several different ways, including direct acquisition and disposition of REOs by the City, funding the acquisition and/or rehabilitation of REO properties by non-profits and responsible for-profit owners, and by providing financial assistance directly to homebuyers to acquire and/or rehabilitate the properties. Through this strategy, it is the City's intention to stabilize high-foreclosure housing markets.

**Targeted Neighborhood Stabilization.** In addition to the acquisition and redevelopment of REOs in all high-foreclosure areas, the City also has a targeted strategy called FIT (Foreclosure Intervention Team) that brings together multiple City agencies (including Mayor's Office, Police, Public Works, Transportation, Inspectional Services, Parks, Neighborhood Development and the Boston Redevelopment Authority) to deliver a coordinated reinvestment strategy to revitalize highly targeted areas where REO properties are most concentrated. Public improvements to streets, sidewalks, and open spaces, along with targeted law enforcement to prevent crime from taking root in vacant properties, combined with strategic code enforcement and receiverships against privately-owned distressed properties creates a comprehensive revitalization effect. A pilot of this strategy was started in February 2008 in a small number of blocks along Hendry Street in Dorchester. At the start of that effort there were 12 REO properties in this small area. As of May 1, 2009, there is only one left. The City has identified seven other areas within the NSP target area that would be suitable for a Hendry-like effort with NSP-2 resources.

**Reinvestment in Non-REO Properties.** To stabilize the markets in high-foreclosure areas, the City is not limiting its efforts to REO properties. Non-NSP funds have been allocated to support reinvestment in non-REO properties in these areas. Three actions are underway: 1) funding for rehabilitation of distressed owner-occupied properties (primarily owned by seniors) in high foreclosure areas, 2) funding for rehabilitation of distressed rental properties in high-foreclosure areas and 3) a new home equity loan program for homeowners that are

unable to make critical repairs because foreclosure-driven value declines have stripped them of the home equity that they would normally borrow against.

The City believes that this three-part approach to the foreclosure issue will result in stable and generally increasing property values in all high-foreclosure areas in Boston within the two years of the NSP-2 grant. Its short term economic benefits will include a significant amount of rehabilitation work and the resulting jobs from renovations that would not have occurred had there not been City-supported interventions and a reduction in crime that would have otherwise developed had properties been left vacant for extended periods. The long-term economic benefits will accrue to all property owners in high foreclosure areas as property values and home equity rebound – it is the City’s intention that these benefits flow primarily to homeowners and responsible rental property operators and not to speculators. The City will also benefit from increased property valuations and the resulting increase in tax revenues that are one reason why the City sees investing its own general resources into this initiative as a prudent investment to promote future revenue growth.

**Timeline for Use of Funds:** The NSP-2 resources requested in this application will enable the City of Boston to significantly expand the scale of its NSP-1 funded programs to address a much larger number of foreclosed properties within its NSP target area. The City is required to have all of its NSP-1 funds obligated to specific projects in 18 months (by September 9<sup>th</sup> of 2010) and to have all of the funds fully expended by March 9<sup>th</sup> of 2013. The timeline for using and expending NSP-2 funds is more aggressive than NSP-1. Grantees are required to expend 50% of the awarded funds within 24 months of award and to expend all of the funds within 36 months. Depending on how quickly HUD awards the NSP funds (estimated to be no later than 1/1/2010), it is possible, or even likely, that the NSP-2 funds will be required to be spent before the NSP-1 funds.

	<b>City NSP-1</b>	<b>State NSP-1</b>	<b>Requested NSP-2</b>	<b>Total</b>	<b>Cumulative Total</b>
<b>Q2/2009</b>	\$352,516	\$335,025	\$0	\$687,541	<b>\$687,541</b>
<b>Q3/2009</b>	\$352,516	\$335,025	\$0	\$687,541	<b>\$1,375,082</b>
<b>Q4/2009</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$4,284,845</b>
<b>Q1/2010</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$7,194,608</b>
<b>Q2/2010</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$10,104,371</b>
<b>Q3/2010</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$13,014,134</b>
<b>Q4/2010</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$15,923,898</b>
<b>Q1/2011</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$18,833,661</b>
<b>Q2/2011</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$21,743,424</b>
<b>Q3/2011</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$24,653,187</b>
<b>Q4/2012</b>	\$352,516	\$335,025	\$2,222,222	\$2,909,763	<b>\$27,562,950</b>
<b>Q1/2013</b>	\$352,516	\$335,025	\$0	\$687,541	<b>\$28,250,491</b>
<b>Total</b>	<b>\$4,230,191</b>	<b>\$4,020,300</b>	<b>\$20,000,000</b>	<b>\$28,250,491</b>	

The following table shows the City’s proposed budget for the NSP-funded components of its neighborhood stabilization and foreclosure intervention strategy. Shown are the City’s NSP-1 funds, NSP-1 funds awarded to the City by the state, requested NSP-2 funds and City resources committed to the NSP-assisted programs.

## NSP-2 Proposed Budget and Programs

PROGRAMS	CITY NSP-1	STATE NSP-1	NSP-2	City LTW Funds	City LTW Revolving Loan Fund	BHA Section 8 Vouchers	TOTAL Budget
REO Turnkey Homeownership Development	\$1,000,000	\$1,000,000	\$5,023,200				\$7,023,200
REO Rental Development	\$500,000	\$500,000	\$2,980,440				\$3,980,440
REO Permanent Supportive Housing *	\$1,057,548	\$1,057,548	\$5,051,640			up to 100	\$7,166,736
City Acquisition Program	\$125,000	\$125,000	\$467,500	\$250,000	\$2,500,000		\$3,467,500
REO Homebuyer Incentive (Down payment & closing, etc)	\$250,000	\$250,000	\$1,200,000	\$1,000,000			\$2,700,000
REO Buyer Development/TA (Homebuyer counseling & outreach)	\$146,500	\$146,500	\$604,000	\$50,000			\$947,000
REO Homebuyer Purchase/Rehab	\$750,000	\$750,000	\$1,800,000	\$500,000			\$3,800,000
REO Homebuyer Rehab	\$0	\$0	\$836,000				\$836,000
NSP Program Cost Subtotal	\$3,829,048	\$3,829,048	\$17,962,780	\$1,800,000	\$2,500,000	\$0	\$29,920,876
Grantee Administration & Planning	\$401,143	\$191,452	\$1,995,864	\$0		\$0	\$2,588,460
<b>Total</b>	<b>\$4,230,191</b>	<b>\$4,020,500</b>	<b>\$19,958,644</b>	<b>\$1,800,000</b>	<b>\$2,500,000</b>	<b>\$0</b>	<b>\$32,509,335</b>

\* The City is setting aside at least 25% of its NSP-1 and NSP-2 funds for Permanent Supportive Housing to satisfy the NSP requirement that at least 25% of the funds be used to provide permanent housing for households with incomes below 50% of AMI.



## Stabilizing Neighborhoods

The requested \$20 million in NSP funds will enable the City to ensure that 132 REO properties containing an estimated 272 housing units will be acquired from the foreclosing lender, rehabilitated if needed, and returned to productive use as owner-occupied homeownership housing or affordable rental housing. The funds will also enable the City to ensure that the estimated 100 properties that will be acquired directly by the City will be properly maintained pending disposition of the properties to a responsible homebuyer or developer.

Program	Income Targeting	Continued Affordability Provisions	Number of Properties
Homebuyer Purchase Rehab	Income of Homebuyer up to 120% AMI.	5-10 years, recapture 100% if sold in first 5 years.	24
Homebuyer Rehab Only	Income of Homebuyer up to 120% AMI.	5-10 years, recapture 100% if sold in first 5 years.	14
Homebuyer Purchase Only	Income of Homebuyer up to 120% AMI.	5-10 years, recapture 100% if sold in first 5 years.	48
Turnkey Homeownership Development	Income of Homebuyer up to 120% AMI, if NSP-2 funds pay for more than 50% of TDC for a 2 family, or more than 33% of TDC of a 3 family, One (1) associated rental unit will be restricted to households with income up to 80% AMI.	It is assumed that the development subsidy will be greater than \$40,000, so that the minimum term of the Covenant would be 15 years.	20
Rental Development	The number of units restricted to households with incomes up to 60% AMI will be in direct proportion to the percentage of NSP-2 funding of the TDC. With a minimum of 1 unit restricted to 60% AMI. The balance of rental units in a development will be targeted to households with incomes up to 80% AMI.	The developer will enter into an Affordable Housing Restriction with a term of 30 years with an ability to extend at the sole discretion of the City for an additional 20 years. The Restriction will allow the transfer of the property within the first 5 years to a moderate income owner occupant who would be required to enter into a Covenant restricting resale to future income eligible owner occupants. Any proceeds of the initial transaction would be shared between the developer and DND.	9
Permanent Supportive Housing Development	The developments will provide permanent affordable housing for homeless families. All of the units in a development will be restricted to household with incomes that do not exceed 50% AMI.	The developer will enter into an Affordable Housing Restriction with a term of 30 years with an ability to extend at the sole discretion of the City for an additional 20 years.	17
City Acquisition Program	All properties acquired or maintained with NSP will be disposed of for use by households at 120% of AMI	Will vary based on the requirements of the specific NSP program through which the disposition is routed.	100

Taken together, these six programs we are proposing to fund with the requested NSP-2 funds will enable the City to assist the acquisition, rehabilitation and disposition and re-occupancy of an estimated 132 REO properties or nearly 20% of the total of 650 REO properties in the NSP-2 target area. When combined with the REO properties that will be assisted with the City and State NSP-1 funds, along with the targeted efforts the City is making to address the non-REO properties in the high-foreclosure neighborhoods, we believe that the City will be able to successfully impact the market in the target neighborhoods and stabilize, if not revitalize those areas. Our successful efforts in the Hendry Street area show that it can be done.